

Federal Grain Limited

THIRTY-NINTH ANNUAL REPORT 1968

Name changed 1973 to Federal Industries Ltd



The original oil painting that is reproduced on the Report was painted by Mr. BARRY A. BURDENY of Winnipeg, Manitoba.

1967-68 Highlights

- Export sales declined 34 per cent, proportionally affecting grain handling operations and earnings.
- Large terminal elevator purchased at West Coast.
- Merchandising activities expanded with purchase of Bell's Limited and construction of "Agro Center."
- Country elevator system consolidated.
- Diversification program launched with an agreement to purchase Standard Aero Engine Limited of Winnipeg as announced September 26, 1968.
- Net earnings of company are \$2,063,854 or 53.8 cents per common share.



Board of Directors



H. E. SELLERS, C.B.E.
Honourary Chairman of the
Board



S. A. SEARLE
Honourary Chairman of
the Board



A. S. LEACH
Chairman of the Board
Federal Grain Limited



G. H. SELLERS
President and Chief
Executive Officer
Federal Grain Limited



S. A. SEARLE, Jr.
Executive Vice-President
Federal Grain Limited



J. E. GAGE
Vice-President
Federal Grain Limited



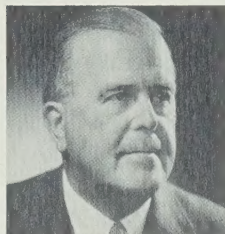
J. T. TRYON, C.A.
Vice-President and
General Manager
Federal Grain Limited



E. H. MONCRIEFF
President
Standard Aero Engine
Limited



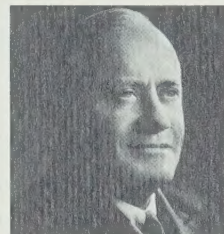
F. L. GLASGOW
Executive Vice-President
Royal Securities
Corporation Limited



W. P. SCOTT
Honourary Chairman
Wood Gundy
Securities Limited



C. GORDON SMITH
Retired
Formerly Vice-President
Monarch Life Assurance
Company



J. A. MacAULAY, Q.C.
Aikins, MacAulay &
Company

OFFICERS

A. S. LEACH
Chairman of the Board

G. H. SELLERS
President and
Chief Executive Officer

S. A. SEARLE, Jr.
Executive Vice-President

J. E. GAGE
Vice-President

J. T. TRYON, C.A.
Vice-President and
General Manager

R. J. BAILEY
Vice-President and
Secretary

R. B. KELLEY
Treasurer

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto, Montreal and Winnipeg

MONTREAL TRUST COMPANY
Toronto, Montreal and Winnipeg



The Company and Its Subsidiaries

as at October 1, 1968

FEDERAL GRAIN LIMITED

PACIFIC ELEVATORS LIMITED

ALBERTA PACIFIC GRAIN PRODUCTS CO. LTD.

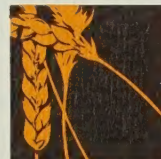
SEABAR EQUIPMENT LTD.

BELL'S LIMITED

With a majority interest in

WESTLAND ELEVATORS LIMITED

BURRARD TERMINALS LIMITED



We are pleased to present the Annual Report and Audited Statements of Federal Grain Limited and its wholly owned subsidiaries for the year ending 31st July, 1968.

EARNINGS

Net earnings for the year's operation amounted to \$2,063,854 after making provision for \$2,464,584 depreciation and \$1,794,217 for income tax. Provision for preferred share dividends amounted to \$265,300 leaving \$1,798,554 or 53.8 cents per share available for common shareholders. This year's net earnings included \$746,637 after tax or 22.3 cents per share from the disposal of fixed assets. Our earnings were decreased by 9 cents per share as a result of the change to deferred tax accounting practices as outlined in note 8 of our consolidated statements. Two severe strikes at the Lakehead also had a substantial adverse effect upon our earnings.

During the past year we have consolidated all our subsidiaries engaged in the grain business. In order to provide comparative statements we have restated last year's figures to include these changes in consolidation and accounting practices. On the restated basis, last year's earnings available for common shareholders were \$3,488,254 or \$1.04 per share.

Though your company increased dividend payments for the year, it still was able to maintain a substantial working capital position.

GENERAL BACKGROUND

There are three principal sources of income for a company in the grain industry.

1. **HANDLING CHARGES:** Your company receives handling charges on all grain which is purchased from the producer at the country elevator and moved through our terminals at the West Coast and at the Lakehead. While the maximum handling charge rates are set by the Board of Grain Commissioners, for Canada the actual rates grain companies receive for handling wheat, oats and barley through the country elevator system is a product of annual negotiations with The Canadian Wheat Board. The volume of grain which a company handles largely depends upon the previous year's crop production, the carry-over of stocks and the amount of Canada's export sales. Of these factors, the latter is the most significant. With relatively fixed handling rates, the key to the company's handling income is the volume of grain which moves through your facilities.
2. **STORAGE CHARGES:** The second most important source of income for your company is the storage earned on grain stored in your company's facilities. The storage rate is set by the Board of Grain Commissioners for Canada. The amount of grain stored in your facilities at any time is dependent upon the same three factors which affect handling volume.

Report to the Shareholders

FOR THE YEAR ENDED 31st JULY 1968



3. AGRO MERCHANDISING: Your company sells agricultural input products to our producer customers through our country elevator distribution network. The quantity of sales and the margins enjoyed are dependent largely upon competition and producer purchasing power.

Of lesser importance but still significant, your company receives earnings from cleaning grain and drying tough and damp grain. The handling of many other commodities, export sales, and manufacturing feed products, also play an important part in Federal Grain's operations.

It will be noted that the level of earnings of a company engaged solely in the grain industry is thus affected by some factors generally beyond the company's control such as size of crop, amount of export sales, regulated tariffs and producer purchasing power. Naturally, the competitive ability of any company to make its services attractive to the producer is of great importance.

The basic premise therefore of your company's new diversification policy, announced in our last Annual Report, is to move to other areas of the economy which are not subject to so many factors that are completely beyond our control and that show potential for substantial future growth. Secondly, of course, diversification will make the level of your company's earnings much less dependent upon fluctuations within a single industry.

CONSTRUCTION OF, AND IMPROVEMENT TO FACILITIES (NET)

Country annexes	\$1,679,492
Marketing Facilities (Fertilizer warehouses, Service stores)	476,817
Terminals	6,945,687
Sundry	378,105
	<u>\$9,480,101</u>

Capital Outlay and Other Expenditures



Country Elevators

Decreased export sales (34 per cent below previous year's total) and lack of shipments reduced the number of bushels handled by our country elevator system during the past year. Storage earnings however, increased as the elevator system became congested.

Railway line abandonment, along with some duplication in facilities brought about by the merger with Searle Grain Company Limited, permitted us to consolidate our country elevator position in a profitable manner. Twenty-two elevators were closed. At twenty-eight other points we were able to consolidate our facilities to make more efficient use of manpower by having one manager operate two elevators. Two elevators were sold outright to other companies. To effect further economies in view of increasing costs, we traded thirty-five elevators to other companies in receipt for thirty-three elevators. This program of consolidation will continue into the new year. As of August 1, 1968 your company has 1146 elevators licensed for operation.

The Canadian Wheat Board, recognizing the rising costs in every area that the companies within our industry are facing, signed a new tariff agreement which permitted an increase in handling charges of ¼¢ on wheat, oats and barley, effective August 1, 1968. A further increase of ¼¢ on these grains will come into effect on August 1, 1969.

Strikes

Two lengthy strikes prevented movement of grain through the Lakehead terminals for a period of 12 weeks and caused a significant decrease in your company's earnings. The Seaway Workers were on strike from June 21 to July 14 and the Grain Handlers were on strike from July 18 to September 16. Nearly all shipments of grain from country elevators in Manitoba and Eastern Saskatchewan to the terminals became suspended during this period and elevators soon became full of grain. With a congested elevator situation in this region, producer deliveries virtually came to a standstill and a reduction in producer purchasing power occurred as farmers do not receive payment for their grain until it is delivered to the elevator.

Terminal Elevators

Handlings at both the Pacific Coast and the Lakehead terminals decreased this past year as exports declined and the impact of the strikes mentioned above was felt.

During the past year, following three years of negotiations, your company completed the purchase from the National Harbours Board of a large terminal elevator including storage facilities and loading wharf in the Port of Vancouver. Satisfactory financing over an extended period has been arranged. Through our wholly owned subsidiary, Pacific Elevators Limited, we have been leasing this elevator for many years. With the developing Asian market for Canadian grains, we expect an increase in the movement of grain through the West Coast in future years.

A meeting with the Board of Grain Commissioners for Canada has been scheduled for November 6, 1968, to discuss handling and storage tariffs at terminal elevators. With recent large wage settlements and other ever rising costs, it is obvious that an increase in the tariff structure is necessary and justified.



Agro Merchandising

Agriculture import producers

Your company maintained its overall sales position in Agro Merchandising despite the decrease in farmers purchasing power and increased competition in the farm market. Our sales this year were \$15,143,000 compared with \$15,292,000 in 1966-67. Several product lines such as fertilizer and coal showed slight decreases but these were partially offset by gains in chemical sales.

To participate in the growing agricultural product market, your company during the past year purchased Bell's Limited, an agricultural store and feed mill operation in Prince Albert, Saskatchewan.

Your company continues to make available to producers a wide variety of farm supplies that can be ordered through any of our country elevator points or from certain Agro Centers that we have established in some key market areas in Western Canada. This service to the producer is expected to improve our position in the competitive agricultural market.

1968 Crop

Unusual weather conditions in the prairie provinces during the growing season of 1968 caused wide fluctuations in crop development and production estimates. The early part of the growing season was characterized by serious drought which hampered early growth. Suddenly the rains came and record rainfall in many areas of Western Canada improved crop prospects, but at the same time, seriously delayed maturity. The rains continued into harvesting time and producers were unable to get the crop combined. Early damaging frosts were reported from most areas of the Prairies extending as far south as the South Eastern corner of Manitoba. With heavy rains and frosts, the 1968 crop will be of lower quality than the crops we have enjoyed during the last few years. However, since the 1967 crop was of exceptional quality, the 1968 crop with its lower grades should be easier to sell on the export market where many importing countries are more interested in price than in quality.

Because of the late harvest, final figures are not available as to the size of the 1968 crop. But early estimates indicate a harvest of about one billion bushels of all grains which is the same as the previous year. Wheat production is also expected to approximate last year's total of 574 million bushels.

Research

Federal Grain personnel are participating in a research program designed to improve the efficiency of Canada's grain handling system. The program is under the auspices of the Grain Transportation Technical Group, a body composed of representatives from the public, private and co-operative elevator companies, the two major railways, The Canadian Wheat Board and the Board of Grain Commissioners for Canada. The basic aim of the research program is to maximize sales by improving the efficiency of moving grain from the country elevator system to the terminals and through the terminals to the waiting vessels.



Future Agricultural Prospects

As noted earlier, export sales during the previous year were decreased from the record breaking highs reached in some recent years. Indications are that Canada might expect to attain better levels during the 1968-69 crop year, although it is not anticipated that the record breaking figures will be equalled. Negotiations for new contracts are currently underway with Russia and China. Reports from Eastern Europe indicate poor harvests and the United Kingdom has suffered crop losses due to flooding. These and other factors should increase world export trade in grain.

During the past year, the major exporting countries of the world signed the International Grains Agreement which established a floor price for wheat of \$1.95½ per bushel, basis Manitoba No. 1 Northern at the Lakehead. After some initial problems with the agreement, the exporting countries have re-affirmed their intention to honor the floor price stipulations, and this we hope will enable Canada to market greater quantities of grain without resorting to price cutting.

Canada's main competition in the world market will again be the United States which is harvesting a record crop. Similarly, Australia has set new high production figures. It is again expected that substantial sales of wheat will be made to both Russia and China.

Canada should maintain her share in the Japanese oilseed market. The Rapeseed Association of Canada, (in which Federal Grain personnel have been actively involved since the formative stages as directors and consultants) is actively promoting the use of rapeseed oil and meal in both domestic and foreign markets. The Association recently sponsored a rapeseed trade mission to Japan where efforts were made to ensure an expanding market for this crop.

Research in hybrid wheat indicates that commercial application of hybrid wheat might be possible by 1970. Hybrid wheat produces higher yields of wheat than our present varieties. If this wheat becomes general in use throughout Western Canada, it will have significant implications upon the seed business as new seed would be required annually.

High yielding dwarf type wheats are also under study and hold possible prospect for application in Western Canada. Although these dwarf type varieties produce very high yields, at present their bread-making qualities are below our existing milling standards, but may have application as important feed grains.



Standard Aero Engine Limited

During September your company was pleased to announce an agreement to purchase Standard Aero Engine Limited for a price not to exceed \$2,400,000, as a first step in the program to diversify the corporate activities. It is the intention of your company to continue to diversify in a planned and systematic manner, allocating the financial and human resources of your company into the fields of activity that are identified as being economically sound and having reasonable growth potential.

Standard Aero satisfies both these basic requirements and has the additional advantages of being Winnipeg based as is Federal Grain and we are familiar with its operation.

Standard Aero is the largest Western Canadian company involved in rebuilding and overhauling aircraft engines and components. Aircraft engines and components must be completely rebuilt and tested at regular intervals. Any worn or defective parts are replaced and after complete testing under controlled conditions are in a fully new condition.

Standard Aero has overhaul capabilities in three general categories. Firstly, the company overhauls a variety of piston engines up to 1,450 horsepower of various manufacture, and secondly overhauls turbine jet engines including both airplane and helicopter units. Thirdly the company has modern facilities to service and rebuild a wide variety of propulsion and ancillary equipment for both Government and private operators in the largest and most complete engine shops in Western Canada.

Standard Aero is Canadian distributor for leading manufacturers of aircraft engines, accessories, parts and radio equipment. In addition to its Winnipeg plant facilities, Standard Aero maintains sales offices and substantial parts inventories in Vancouver, Calgary, Edmonton, Toronto and Montreal. The company employs approximately 460 persons, a majority of whom are located in Winnipeg.

Standard Aero will be a separate Operating Division of your company. Federal Grain is now a direct participant in the expanding Canadian aviation industry through Standard Aero Engine Limited.



Diversification

This year your company plans to pursue vigorously its plans for diversification. The purchase of Standard Aero Engine is one of our first steps in this direction. Other possible acquisitions are under active consideration. It is hoped that the activities of our Corporate Planning Department will continue to produce new opportunities for the profitable employment of your company's funds so that a trend towards future increased earnings may be established.

Staff

Your directors wish to express their appreciation to the officers and staff for their combined efforts on behalf of the company which have contributed greatly to another year of progress.

On behalf of the Board

A. H. Leach S. A. Bellus.

October 24, 1968

Chairman of the Board

President



Federal Grain Limited and its Subsidiaries

Assets

	1968	1967
CURRENT		
Cash	\$ 421,847	\$ 1,939,711
Accounts receivable	11,705,391	9,310,015
Stocks on hand—Note 5	96,836,604	68,508,947
Marketable securities, at market value	312,735	357,269
Prepaid expenses	924,027	922,924
	<u>110,200,604</u>	<u>81,038,866</u>
DEFERRED		
Special refundable tax	<u>215,357</u>	<u>213,603</u>
INVESTMENTS, at cost—Note 2		
Subsidiary company (shares \$800, advances \$132,755)	133,555	148,521
Mortgages and agreements for sale	257,149	243,105
Memberships and shares of grain trade organizations	1,651,794	1,384,650
	<u>2,042,498</u>	<u>1,776,276</u>
FIXED		
Terminals, country elevators and other properties, at cost	77,529,166	69,020,672
Accumulated depreciation	50,385,421	48,939,664
	<u>27,143,745</u>	<u>20,081,008</u>
OTHER		
Excess of cost of shares of a subsidiary over the book amount of net assets acquired	90,493	
On behalf of the Board		
A. S. LEACH, Director		
G. H. SELLERS, Director		
	<u>\$139,692,697</u>	<u>\$103,109,753</u>

(with comparative figures for 1967)



Liabilities and Shareholders' Equity

	1968	1967
CURRENT		
Bank indebtedness, secured—Note 6	\$ 72,964,899	\$ 40,106,296
Outstanding cash tickets and settlements	10,192,864	9,285,725
Other accounts payable	8,069,824	10,540,538
Income taxes	491,626	2,341,109
Dividends	400,825	233,575
	<u>92,120,038</u>	<u>62,507,243</u>
LONG TERM —Note 7		
Debentures	5,000,000	5,000,000
Purchase agreement	5,712,500	—
	<u>10,712,500</u>	<u>5,000,000</u>
DEFERRED		
Income taxes—Note 8	1,186,077	784,686
Employee retirement benefits	586,793	694,629
Special repairs	—	300,000
	<u>1,772,870</u>	<u>1,779,315</u>
MINORITY INTEREST —Note 1	688,540	4,480,267
SHAREHOLDERS' EQUITY —Note 1		
Capital stock		
Preferred		
Authorized—37,900 7% cumulative redeemable shares, par value \$100 each		
Issued and fully paid—37,900 shares	3,790,000	—
Common		
Authorized—6,000,000 shares, no par value		
Issued and fully paid—3,345,000 shares	13,622,500	9,837,500
	<u>17,412,500</u>	<u>9,837,500</u>
Excess of book amount of net assets acquired over the cost of shares of a subsidiary	—	311,937
Retained earnings	16,986,249	19,193,491
	<u>34,398,749</u>	<u>29,342,928</u>
	<u>\$139,692,697</u>	<u>\$103,109,753</u>

Federal Grain Limited and Its Subsidiary Companies

STATEMENT II



CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED 31st JULY 1968

Balance at 1st August 1967, before amalgamation		\$19,193,491
Deduct Retained earnings capitalized—Note 1		<u>3,785,000</u>
		15,408,491
Add Excess of book amount of net assets acquired over the cost of shares of a subsidiary— Note 1	\$ 311,937	
Adjustment of prior years' deferred income taxes—Note 8	<u>805,267</u>	<u>1,117,204</u>
Balance at 1st August 1967, after amalgamation		16,525,695
Add Net earnings for the year		<u>2,063,854</u>
		18,589,549
Deduct Dividends paid on common shares	1,338,000	
Dividends paid on preferred shares	<u>265,300</u>	<u>1,603,300</u>
Balance at 31st July 1968		<u><u>\$16,986,249</u></u>

Federal Grain Limited and its Subsidiary Companies

STATEMENT III



CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED 31st JULY 1968 (with comparative figures for 1967)

	1968	1967
Sales and services		
Grain	\$152,654,861	\$207,883,377
Merchandise	15,142,627	15,292,000
Other income	1,029,059	1,027,513
	<u>168,826,547</u>	<u>224,202,890</u>
Cost of sales and operating expenses—Note 9	163,140,666	215,029,528
Depreciation	2,464,584	2,263,264
Interest on long term debt	527,029	300,000
Provision for estimated loss on realization of advances to Seabar Equipment Ltd.	—	100,000
	<u>166,132,279</u>	<u>217,692,792</u>
Earnings from operations	2,694,268	6,510,098
Income from investments	131,787	204,847
Gain on disposals of fixed assets	1,140,160	402,450
Earnings before providing for income taxes	3,966,215	7,117,395
Provision for income taxes	1,794,217	3,268,350
Net earnings	2,171,998	3,849,045
Portion allocated to minority shareholders	108,144	95,491
Net earnings for the year	<u>\$ 2,063,854</u>	<u>\$ 3,753,554</u>

Federal Grain Limited and its Subsidiary Companies

STATEMENT IV



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31st JULY 1968

Source of Funds

Operations		
Net earnings		\$ 2,063,854
Add Depreciation	\$2,464,584	
Deferred income taxes	1,206,658	
Earnings allocated to minority shareholders	108,144	3,779,386
		<u>5,843,240</u>
Long term borrowing		5,712,500
		<u>\$11,555,740</u>

Application of Funds

Investment in terminals, country elevators and other properties, less disposals	\$ 9,480,101
Purchase of investments	267,144
Excess of cost of shares of a subsidiary over the book amount of net assets acquired	90,493
Decrease in deferred liabilities	407,836
Dividends paid by subsidiary companies to minority shareholders	109,871
Dividends	1,603,300
Miscellaneous items	48,052
	<u>12,006,797</u>
Decrease in working capital	451,057
	<u>\$11,555,740</u>

Working Capital at 31st July 1968	\$18,080,566
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TOUCHE, ROSS, BAILEY & SMART

CHARTERED ACCOUNTANTS

HALIFAX
QUEBEC
MONTREAL
TORONTO
LONDON
REGINA
NORTH BATTLEFORD
EDMONTON
VICTORIA
SAINT JOHN
CAP DE LA MADELEINE
OTTAWA
HAMILTON
WINNIPEG
SASKATOON
CALGARY
VANCOUVER

213 NOTRE DAME AVENUE
WINNIPEG 2, MAN.
CABLE ADDRESS "TROBAS"

UNITED STATES OF AMERICA
GREAT BRITAIN
AND OTHER COUNTRIES
THROUGHOUT THE WORLD

AUDITORS' REPORT

To the Shareholders,
Federal Grain, Limited,
Winnipeg, Manitoba.

We have examined the consolidated balance sheet of Federal Grain, Limited and its subsidiary companies as at 31st July 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. For Federal Grain, Limited and the subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the subsidiary of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the report of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at 31st July 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, with the exception of the matters dealt with in notes four and eight to the financial statements.

Touche, Ross, Bailey & Smart

Winnipeg, Manitoba,
15th October 1968.

Chartered Accountants.

Auditors' Report

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st JULY 1968

1. AMALGAMATION

On 1st August 1967 Federal Grain, Limited and its wholly owned subsidiary companies Searle Grain Company, Limited and Alberta Pacific Grain, Ltd., amalgamated under the provisions of Section 128A of the Canada Corporations Act.

The Amalgamation Agreement provided:

- (a) That the companies continue as one amalgamated Company under the name of Federal Grain, Limited.
- (b) That the authorized capital of the amalgamated Company be divided into:
 - (i) 37,900 7% cumulative preferred shares of the par value of \$100 each, redeemable at \$105 prior to 1st August 1969, thereafter at \$104 prior to 1st August 1970, thereafter at \$103 prior to 1st August 1971, and thereafter at \$102.
 - (ii) 6,000,000 common shares without par value, not to be issued for a consideration in excess of \$15,000,000.
- (c) That the authorized and issued capital of the amalgamating companies be converted as follows:
 - (i) The 37,900 preferred shares of Searle Grain Company, Limited be converted share for share into 37,900 fully paid preferred shares of the amalgamated Company.
 - (ii) The issued 3,345,000 common shares of Federal Grain, Limited be converted share for share into 3,345,000 common shares of the amalgamated Company.
 - (iii) As all of the issued common shares of Searle Grain Company, Limited and Alberta Pacific Grain, Ltd. were owned by Federal Grain, Limited, there be no conversion of such shares into shares of the amalgamated Company.

The reorganization of the capital structure resulted in the following changes in the accounts which, immediately prior to the amalgamation, had been consolidated on a parent and subsidiary company basis:

- (a) The 37,900 preferred shares of Searle Grain Company, Limited which, prior to the amalgamation, represented a minority interest of \$3,790,000, were converted into preferred shares of the amalgamated Company.
- (b) The paid in value of the 3,345,000 issued common shares was increased by the value of the common shares of the former subsidiary companies, \$3,785,000, and a corresponding reduction occurred in retained earnings.
- (c) The excess of the book amount of net assets acquired over the cost of shares of a subsidiary of the former parent company, \$311,937, was added to the retained earnings of the amalgamated Company.

On 4th August 1965 Federal Grain, Limited granted options for the purchase of 48,500 shares of its capital stock at a price of \$7.00 per share. The options may be exercised at any time within ten years, not to exceed twenty percent of the shares so optioned in any one year. None of the options had been exercised at 31st July 1968. Of the shares optioned 35,500 were granted to directors who were also officers of the companies. No shares were optioned to directors who were not officers of the companies.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements at 31st July 1968 include the accounts of the Company and the following subsidiary companies:

Pacific Elevators Limited
Alberta Pacific Grain Products Co. Ltd.
Westland Elevators Limited
Burrard Terminals Limited
Bell's Limited

The accounts of Seabar Equipment Ltd., whose operations are not comparable with other companies in the group, were not consolidated. The loss for the year ended 31st December 1967 of Seabar Equipment Ltd. amounted to \$1,696 and the accumulated deficit amounted to \$257,151. Full provision has been made in the consolidated statements for the estimated loss on realization of the investment in and advances to this company.

Two inactive subsidiary companies, Winter Dump Co. Ltd. and Searle Selling Agency, Limited, were wound-up during the year. Federal Pacific Supplies Limited and The Alberta Pacific Construction Company Limited were also wound-up during the year and their operations merged with other companies in the group.

Westland Elevators Limited and Burrard Terminals Limited, in which a majority interest is held, and Bell's Limited, a wholly owned subsidiary acquired 29th February 1968, were included in the consolidation for the first time.

The fiscal year end dates of Pacific Elevators Limited and Burrard Terminals Limited were changed from 30th June to 31st July, resulting in an additional month's net earnings of \$103,000 being included in consolidated net earnings.

3. RESTATEMENT OF COMPARATIVE FIGURES

For comparative purposes the 1967 figures shown in the financial statements have been restated to give effect to the consolidation of Burrard Terminals Limited and Westland Elevators Limited. As a result, the 1967 reported net earnings have been increased by \$55,046.

Total sales figures for grain and merchandise products sold have been shown in 1968 for the first time, instead of a combination of handling margins and merchandise sales reported in prior years. The 1967 comparative figures have been correspondingly restated.

4. CHANGES IN APPLICATION OF ACCOUNTING PRINCIPLES

In prior years the predecessor companies provided for depreciation of fixed assets in annual amounts which, with some minor exceptions, decreased over the life of the asset. The amalgamated Company has changed this policy to record depreciation in equal annual amounts over the estimated useful life of the asset. Had the new policy been applied in the year ended 31st July 1967, reported net earnings for that year would have been reduced by \$93,000.

Certain items of revenue were previously recorded on a cash basis. These items have been included in the income of the amalgamated Company on an accrual basis, resulting in an increase in net earnings of \$201,000.

5. INVENTORIES	1968	1967
Grain purchased for the account of The Canadian Wheat Board, valued on the basis of Board prices less freight and other charges	\$88,220,145	\$59,140,709
The Canadian Wheat Board Agency Wheat stocks, at cost	1,122,110	585,651
Owned grain, valued on the basis of relative closing market quotations	3,633,111	5,565,579
Inventories other than grain, valued at the lower of cost and net realizable value	3,861,238	3,217,008
	<u>\$96,836,604</u>	<u>\$68,508,947</u>

6. BANK INDEBTEDNESS

Bank loans are secured under sections 86 and 88 of the Bank Act by assignment of accounts receivable and inventories.

7. LONG TERM LIABILITIES

Under the terms of the trust indenture securing the \$5,000,000, 6% Debentures, Series "A", due 1985, the Company is required to pay to the Trustee, for the retirement of principal, \$250,000 before 15th October in each of the years 1969 to 1984. The issue is secured by a first floating charge on all assets of the Company.

An amount of \$5,900,000, less the principal repayment of \$187,500 due on 31st December 1968 which has been included in current liabilities, is the estimated balance payable for the purchase of fixed assets. The vendor has agreed to accept equal annual payments of \$462,900, including interest at 6% %, on the 31st December of each year, for 29 years. The whole or any part of the unpaid balance may be paid without notice or bonus. The formal agreement securing the obligation has not yet been executed.

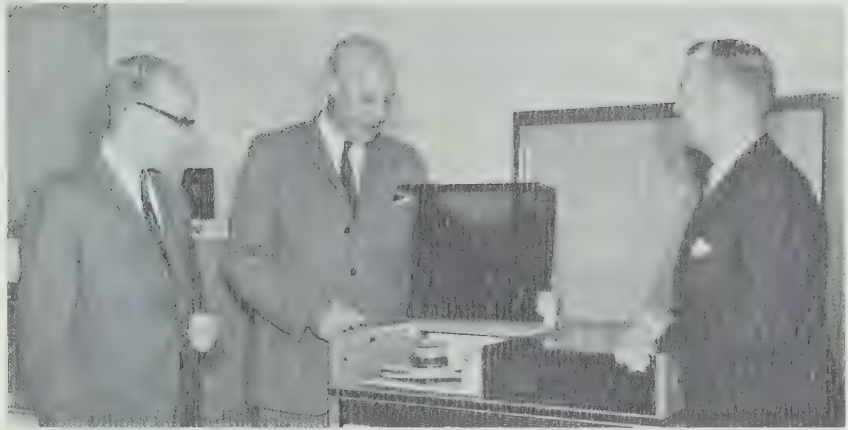
8. DEFERRED INCOME TAXES

In prior years the predecessor companies calculated the amount of deferred income taxes only on the excess of depreciation claimed for tax purposes over depreciation recorded in the accounts. The amalgamated Company has determined deferred income taxes taking into account all timing differences between reported items of revenue and expense and their inclusion in taxable income, as recommended in Bulletin 26 of the Canadian Institute of Chartered Accountants. The effect of this adjustment to prior years has been reflected by an increase in retained earnings of \$805,267. The reported net earnings for the year 1967 would have been increased by only \$3,000 of this amount, the remainder being applicable to earlier years. The reported net earnings for the current year have been reduced by \$302,745 as a result of this change.

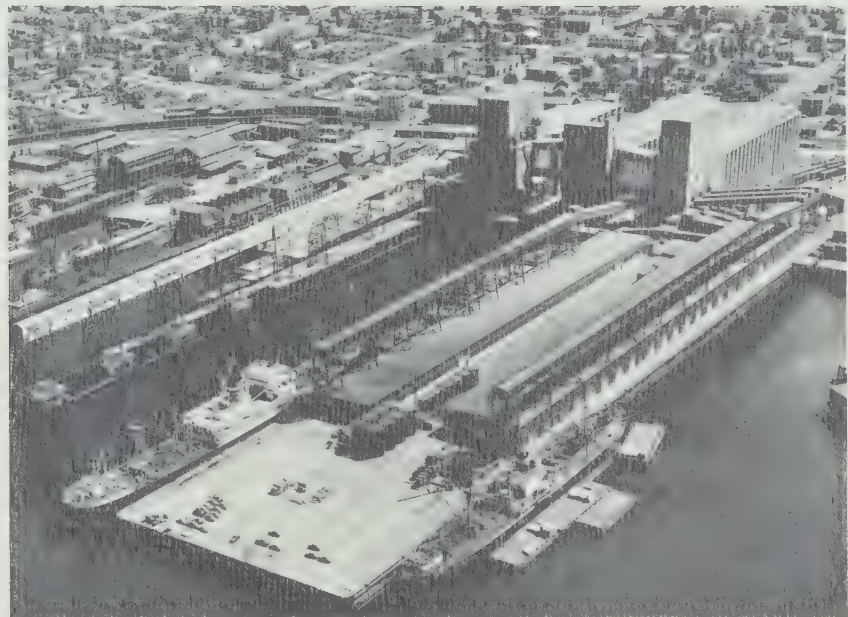
9. DIRECTORS' REMUNERATION

Remuneration received during the year by directors and senior officers of the Company and its subsidiaries, as defined in the Canada Corporations Act, amounted to \$317,380, and as defined in the Ontario Securities Act, to \$351,636. No remuneration was received by directors and senior officers from Seabar Equipment Ltd.

Federal Grain executive-vice president S. A. Searle Jr. (right) and A. S. Leach Jr., director of finance and control, (left) hear an explanation of the Burroughs B-2500 computer from Burroughs of Canada president, K. Dichow. The B-2500 is being integrated into Federal's operations.



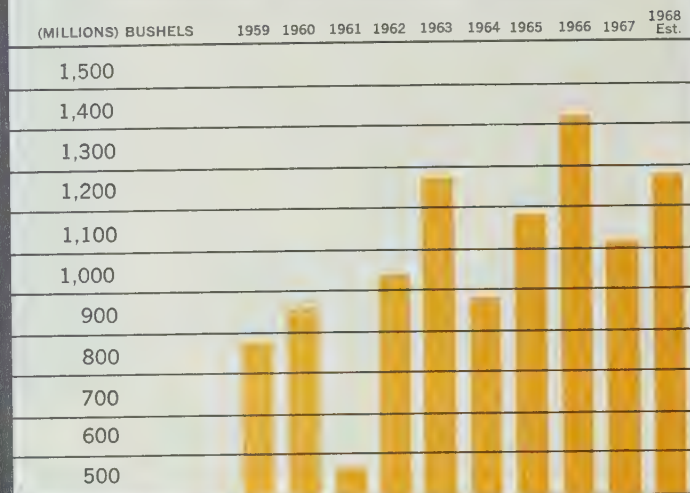
Large terminal elevator including storage facilities and loading wharf in the Port of Vancouver recently purchased from the National Harbours Board.



CANADIAN EXPORTS OF WHEAT & WHEAT FLOUR

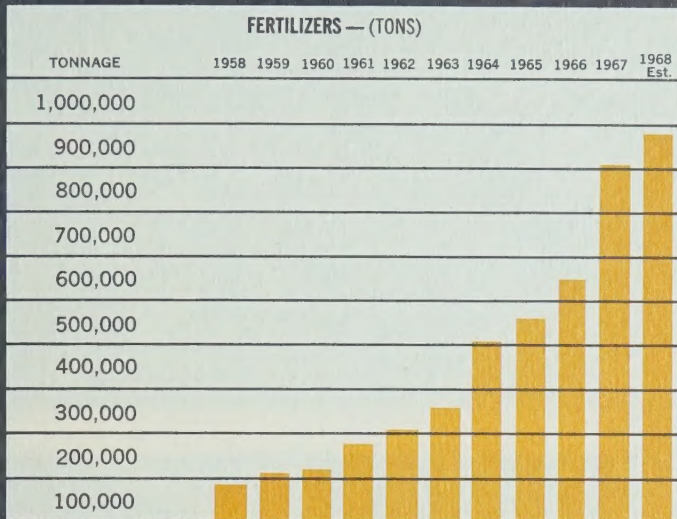


GRAIN PRODUCTION — PRAIRIE PROVINCES FOR 10 YEAR PERIOD

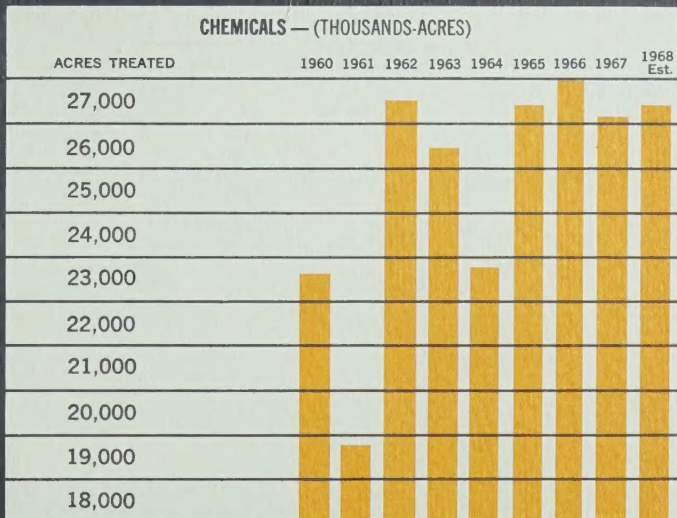


Export Sales and Prairie Grain Production

FERTILIZERS — (TONS)



CHEMICALS — (THOUSANDS-ACRES)



Growth in use of
Chemicals and Fertilizers
in Prairie Grain Operations

Standard Aero's Operations

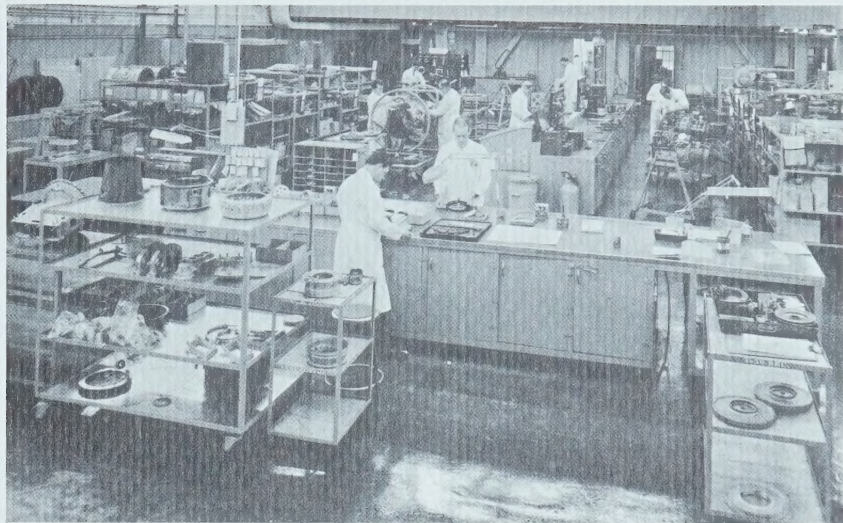
Piston engine overhaul shop.



Accessory overhaul shop.



Turbine engine overhaul shop.



Jet engine test stand.

